

Aboitiz Transport System Corp., ATS [PSE]

First Metro Rating	Last Price 1.11	Industry Marine Transport	Sector Transportation Service
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On the Rebound

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Analyst

Report updated Aug. 27, 2010.

Call Report

Resources

Interview with ATSC AVP for Finance
Vivien T. Vicente, Aug. 25, 2010

2Q 2010 AEV Analysts' Briefing
Makati Shangri-la Hotel
Aug. 6, 2010

Stock Data

Price (PHP)	1.11
Market Cap (PHP m)	2,715
Shares Outstanding (m)	2,446
Book Value/share (PHP)	2.08
Price/book (x)	0.57

Fundamental Indicators

	08A	09A	10E
Sales (Php bn)	12.8	11.8	n.a.
Net Profits (Php mn)	83	546	n.a.
EPS (Php)	0.03	0.22	n.a.
PER (x)	48.23	5.36	n.a.

No Consensus net income estimates from Bloomberg.

I. Losses in 1H2010; Upside in 2011. Aboitiz Transport System Corp. (ATS) posted a net loss of PHP152m in 1H2010, a result of cumulative 1Q and 2Q net loss of PHP142m and PHP10m, respectively. Year-on-year (yoy), net profits were down 131%. Key reasons were reduced operating capacity, lower tariffs, higher fuel cost and interest expenses, all of which will continue to challenge the 2H2010 profit outlook.

Management expects an upside in 2011 with the ff: (1) ATS' return to full scale operations upon completion of drydock by end last June, 21 vessels back in full force in 2H2010; (2) easing of the debt service burden upon repayment of PHP1.3bn maturities this year; (3) 130% expansion of third party logistics capacity to 55k pallets by 4Q2011 and (4) some scope for freight and the niche passenger load factors to improve from the current 67% (cargo) and 93% (passenger) as the economy improves.

Below were behind the losses in 1H2010:

A) The drydocking of 5 vessels reduced operating capacity. The effect was 55 less voyages for the period and a 9% cut in combined revenues from freight and passenger businesses. Freight and passenger were 50% and 18%, respectively, of the PHP6.7bn topline for the semester, which, inclusive of the distribution and logistics business grew 8%, yoy. The latter was 15% of 1H2010 topline.

B) Tariffs for freight and passenger were under pressure for two reasons:

- 1) Cut-throat pricing by competing budget air carriers for passenger.
- 2) Excess cargo capacity overhang, which is temporary.

During the past years, there has been growth in the number of players in the domestic shipping industry. Pricing is no longer regulated, thus allowing new entrants to compete with the existing operators.

ATS passenger tariffs fell yoy by 12% and 8% for its so-called fastcraft (purely passenger) and ropax (combined passenger & cargo), respectively. The price effect overwhelmed passenger volume growth of 64% (for the fastcraft only as ropax is down) and led to an 18% reduction in passenger revenues to PHP1.2bn.

ATS freight rate was 19% lower yoy to Php17k./TEU, but mitigated by a 9% hike in volume to 105k TEU. The net effect was that ATS' overall freight revenues were

still ahead by 13% to PHP3.3bn, yoy.

C) Higher fuel cost. The price of low-grade diesel, ATS' major fuel type, surged 36% to Php26/li. yoy and was largely behind the 30% jump in operating expenses of PHP4.3bn, a fifth of which is fuel.

C) Interest expenses were up 74% to PHP93m due to an increase in long-term debt of PHP2bn in 2Q2010, which funded vessel acquisitions (3 units) & drydocking. Interest bearing debt rose 132% yoy to PHP3.3bn, pulling up debt to equity ratio to 1.45 by end-2Q10 from 1.06 last yearend.

II. Near-Term Profit Outlook is Weak; Loss in 2010.

Soft Passenger Business. Cargo is Resilient. Passenger tariffs are seen to remain soft with the air carriers' promotional pricing. Passenger volume is not rising dramatically based on company view. ATS' 5-vessel Cebu Ferries' niche routes are a captive market though being untouched by the air carriers, routes such as Palawan to Bohol, Dumaguete and Cagayan de Oro. Cargo's soft tariff will be offset by rising freight volumes as shown by resilient 9% revenue growth of the freight business in 1H2010, underpinned by the domestic recovery.

3Q is Seasonally Weak, But Logistics is Cushion.

Operating losses in the 1Q and 3Q were not uncommon in the past ten years. These were offset by seasonally strong 2Q and 4Q. Thus ATS' fleet being back in full force in 3Q may not necessarily dash operating losses. Management is bracing for close to PHP200m in full year 2010 operating losses. While 4Q results can compensate, it will be capped by higher interest expenses borne of the 8.5% Php2bn fixed rate corporate note drawn last May and firm fuel prices. There's cushion from ATS' third party logistics and distribution/trading business through subsidiaries ScanAsia, joint venture with Kerry Logistics Network Limited of Hong Kong (KLN) and tie-up with Hapag Lloyd. It is growing dramatically, contributing 15% of 1H2010 total revenues from just 3% in 08. Gross profit margin averaged 15% in the last three years.

III. 2011 Rebound, Operating Profits of about HP500m.

ATSC's 2011 profits will reflect full operating capacity. Cargo capacity of 6,000 TEU is the country's largest, a third of the local market. Passenger's market share is 53%. ATS size is growing, with new capacities: two SuperFerries (200 TEU and 1,200 passengers) and a 100 TEU freighter with 500 passenger capacity. Cargo load factor at 67%, higher than industry average of 60%.

Aboitiz Transport System Corp. [PSE]

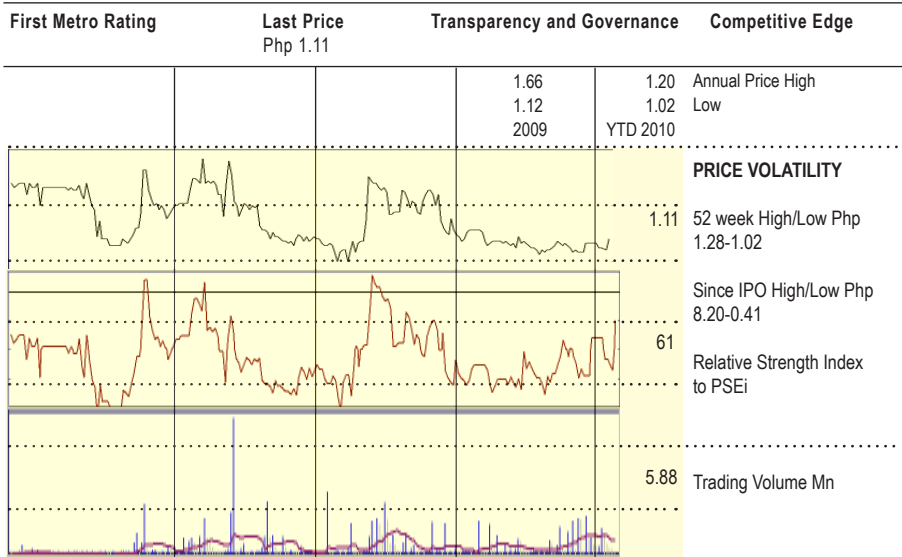
2009 Sales Php Mn
Php11,824

Mkt Cap Php Mn
Php 2,715

Industry
Marine Transport

Sector
Transport Services

Aboitiz Transport provides passenger and shipping freight services throughout the Philippines. The company provides both passenger and cargo ferry services along with freight operations which encompass container and break bulk cargo services. The company has also expanded into third party logistics and trading/distribution business, which is now as big as its passenger business, contributing 17% to the total revenues in 1H2010 from just 3% in 08.



Growth Rates			
	2009	2008	2007
Revenue %	-8.11	56.86	-22.4
Operating Income %	n.a.	77.67	-49.4
Earnings/share %	547.06	-80.0	112.5
Dividends/Shr. %	-0.54	n.a	n.a.
Book Value/Share %	2.09	1.88	1.82
Stock Total Return %	-28.05	30.16	17.69
+/- Market	70.65	46.29	23.76

Profitability Analysis				
	Current	5 Yr Average	Ind.	Mkt.
T12M ROE %	11.30	5.51	5.91	15.16
Return on Assets %	5.45	2.55	0.41	4.13
Operating Margin %	4.21	0.38	7.02	19.31
Net Profit Margin %	4.62	2.53	-86.64	14.80

Financial Position		
	12-09 Php	12-08 Php Mn
Cash & Cash Equivalents	1,096	860
Trade and other receivables	1,803	1,661
Inventories	571	344
Other Current Assets	1,329	1,366
Total Current Assets	4,799	4,232
Net Fixed Assets	4,818	4,195
Other Long-term Assets	961	954
Total Assets	10,622	9,409
Accounts Payable	1,624	1,460
Short-term Borrowing	1,398	632
Long-term Borrowing	425	30
Total Liabilities	5,462	4,818
Stockholders Equity	5,160	4,591

Valuation Analysis			
	Current	Ind.	Mkt.
Price /T12M EPS	5.45	16.28	12.11
EV/T12M EBITDA	2.16	22.56	8.79
Price/T12M Cash Flow	2.88	115.26	8.31
Price/12M Sales	0.25	1.05	2.29

	FY2006	FY2007	FY2008	FY2009	YTD10	STOCK PERFORMANCE
Total Return %	-13.33	17.69	30.16	-28.05	-5.00	
+/- Market %	46.01	23.76	-46.29	70.65	15.48	
Dividend Yield %	0	23.81	0	0	0	
Market Cap Php Mn	3,179	25,908	11,595	26,239	2,715	

	FY2005	FY2006	FY2007	FY2008	FY2009	FINANCIALS
Revenue Php Mn	11,112	10,571	8,203	12,868	11,824	
Operating Income Php Mn	177	-130	-194	-43	497	
Net Income Php Mn	42	197	420	83	546	
Earnings per Share	0.02	0.08	0.17	0.03	0.22	
Dividends/Shr. Php Mn	0	0	.03	0	0	
Shares Mn	2,305	2,446	2,446	2,425	2,446	
Book Value per Share	1.89	1.95	1.82	1.87	2.08	
Assets Php Mn	11,353	10,302	8,639	9,409	10,622	
Total Equity Php Mn	4,432	4,815	4,583	4,591	5,160	
Free Cash Flow Php Mn	380	14.6	-221	-114	-922	

	FY2005	FY2006	FY2007	FY2008	FY2009	PROFITABILITY
Return on Assets %	0.37	1.82	4.43	0.92	5.45	
Return on Equity %	0.96	4.30	9.08	1.83	11.30	
Net Profit Margin %	0.37	1.86	5.11	0.62	4.62	
Operating Margin %	1.60	-1.22	-2.32	-0.33	4.20	

	FY2005	FY2006	FY2007	FY2008	FY2009	FINANCIAL HEALTH
Total Debt/Total Assets	31.66	13.48	5.52	7.05	13.40	
Total Debt/Total Common Equity	82.31	28.98	10.71	14.56	27.87	
Net Debt	2,722	396	-343	-196	328	

	FY2006	FY2007	FY2008	FY2009	Current	VALUATION
Price/T12m EPS	16.25	7.30	48.23	5.36	5.45	
Price/T12m Sales per share	0.31	0.28	0.27	0.31	0.24	
Price/Book	0.79	0.66	0.69	0.87	0.57	

Quarterly Results				
Revenue Php Mn	Jun.-09	Sep.-09	Dec.-09	Mar.-10
Most Recent Period	3,373	2,440	3,157	3,139
Prior Year Period	3,402	3,401	n.a.	2,853
Revenue Growth %	Jun.-09	Sep.-09	Dec.-09	Mar.-10
Most Recent Period	10.93	-28.24	n.a	10.03
Prior Year Period	1.39	22.72	n.a.	-4.44
Earnings Per Share Php	Jun.-09	Sep.-09	Dec.-09	Mar.-10
Most Recent Period	0.148	-0.028	0.048	-0.058
Prior Year Period	0.022	-0.027	0.054	0.053

Global Peers				
Name	Mkt. Cap US\$m	Trailing 12M Rev \$m	ROE	PE
Ha Tien Transport	18	5.83	8.94	20.36
Transport & Chartering Corp.	19.4	1,800	8.80	21.90
A. Pratama Ocean Line	39.9	166	-56.32	n.a.
PDZ Holdings Berhad	20.67	43.05	-1.17	n.a.

Top Common Stockholders		
Name	In bn Shares	% to Total OS Capital Stock
Aboitiz Equity Ventures	1.800	77.24%
Aboitiz & Co.	0.400	15.96%
E. Evelyn	0.004	0.15%
Others	0.240	6.65%
Total	2.446	100.00%